Statement of Investment Principles
Trane UK Limited Retirement Benefits Plan

Last reviewed September 2020

Introduction

1 This document is the Statement of Investment Principles ("SIP") written by the Trustees of the Trane UK Limited Retirement Benefits Plan (the "Plan") in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

2 The Plan is a Registered Pension Scheme for the purposes of the Finance Act 2004.

3 Before finalising this statement, the Trustees have obtained and considered written advice from their Investment Consultant and consulted with the Corporate Treasury Department of Trane Technologies plc ("Trane Corporate Treasury"). The Trustees have also consulted Trane UK Limited (the "Employer") on the principles set out in this statement and will consult the Employer and Trane Corporate Treasury on any changes to it. The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.

4 The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy.

Plan objectives

5 The Trustees main aims are:

- To ensure they can meet their obligations to the beneficiaries of the Plan; and
- To pay due regard to the Employer's interests on the size and incidence of Employer's contribution payments.

6 In seeking to achieve these objectives, the Trustees are mindful of the need to:

- Take account of current market conditions when positioning the portfolio at any time; and
- Limit the risk of the assets failing to meet the liabilities over the long term, noting that future asset values will depend on both investment returns and future contributions.

7 The Trustees will review these objectives regularly and amend as appropriate.

Investment strategy

8 The Trustees' policy is to seek to achieve the objectives through investing in a suitable mixture of asset classes. The Trustees recognise that return-seeking assets (such as equities) are expected to offer greater returns over the long term but they are also likely to be more volatile than liability-matching assets (such as index-linked gilts) which will provide a better hedge against the interest rate and inflation sensitivity of the Plan's liabilities.

9 The Trustees have received investment advice from the Investment Consultant and consulted with Trane Corporate Treasury to determine an appropriate investment strategy for the Plan (which has been agreed with the Employer).

10 Following the results of the Actuarial Valuation in 2019, the Trustees reviewed the investment strategy and Journey Plan in June 2020. It was agreed that once the Plan is fully funded on a gilts + 0.25% basis, an appropriate long-term (End State) portfolio would have a 10% allocation to return-seeking assets and 90% to liability-matching assets.

11 Subsequent to the Strategy Review, the Employer accelerated the annual employer contribution, taking the Plan above its full funding target. As a result, the move to the 10% / 90% portfolio was executed in August 2020 alongside an increase to the Plan's target interest rate and inflation hedging level to 100% (as a percentage of liabilities), reducing the risk borne by the Plan. Additionally, the Trustees decided to replace the Plan's UK Corporate Bonds mandate with a Buy and Maintain Credit mandate to increase the credit quality of the underlying bonds and generate income within this portfolio to meet benefit payments. This manager selection is currently ongoing.

12 The Trustees have a desire to diversify the Plan's risk exposures and to manage the Plan's investments efficiently.

13 The investment strategy makes use of two main types of investments:

- A diversified portfolio of global equities; and
- A range of instruments that provide a better match to changes in liability values, including (but not limited to) fixed interest and index-linked government bonds, and corporate bonds.

14 The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Plan's investment objectives.

15 The Plan will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

16 The Trustees, in conjunction with the Investment Consultant and the Scheme Actuary, and in consultation with Trane Corporate Treasury, will monitor the liability profile of the Plan and will regularly review the appropriateness of its investment strategy.

17 The expected returns of the Plan's investments will be monitored regularly and will be directly related to the Plan's investment objectives.

18 The Trustees' policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Plan's overall investments, where possible. The Trustees, together with the Plan's administrators, will hold sufficient cash to meet benefit and other payment obligations.

Investment managers

19 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy and will approve the selection of investment managers and strategies, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Plan competently.

20 Managers will be recommended by the Investment Consultant for the Trustees' approval based on the following criteria:

- Organisational stability;
- Quality of investment process;
- Experience and scale to manage desired strategy;
- Record of success in meeting objectives; and
- Competitive fees.

21 The Trustees have considered the extent to which Environmental, Social and Governance ("ESG") factors should be taken into account in the selection, retention and realisation of investments, and their policy in relation to the exercise of the rights (including voting rights) attaching to investments.

22 **Financially material investment considerations**

The Trustees have delegated selection, retention, and realisation of investments to the Plan's investment managers. The Trustees recognise that long-term sustainability issues could have a material impact on risk and outcomes, both financial and non-financial, though the Trustees' fundamental mission is to meet the Plan's financial obligations, and therefore financial considerations must take precedence. The Trustees' policy is that the extent to which social, environmental or ethical considerations are taken into account in these decisions is left to the discretion of its investment managers, in particular the extent to which these issues may have a fundamental impact on portfolio returns.

The Plan uses different managers and mandates to implement its investment policies. The Trustees ensure that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2 of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustees will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustees will use their discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustees' policies, where relevant to the mandate.

23 To maintain alignment, managers are provided with the most recent version of the Plan's Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

24 **Non-financial matters**

The Trustees do not at present take in to account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time, the Trustees have no plans to seek the views of the membership on ethical considerations.

25 **Rights attached to investments**

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings.

26 It is expected that the Plan's portfolio will be primarily invested in indexed strategies in order to minimise fees and active management risk. Active strategies may be utilised in those asset classes in which there is deemed to be no suitable index or are deemed to be "inefficient". When deciding whether to implement a given mandate with active or passive management, the Trustees will consider the likelihood of active management adding value above fees and transaction costs on a predictable and consistent basis.

27 The Trustees are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Trustees will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Plan's long term objectives, and an acceptable level of risk.

28 The Trustees, Investment Consultant and Trane Corporate Treasury will receive quarterly reports from the investment managers. Performance reports will be provided to the Trustees on a quarterly basis by the Investment Consultant along with any discussion of specific issues or recommendations regarding investment managers. The performance data contained within the Investment Consultant's quarterly report is compiled by the Plan's independent performance measurer, Portfolio Evaluation Limited. The Trustee will meet with the investment managers on an ad-hoc basis, in the event that there are any issues that need to be addressed.

29 Managers will be assigned appropriate performance benchmarks against which portfolio risk and return will be regularly measured. Benchmarks will be periodically reviewed to ensure that they continue to be appropriate for the individual mandates and the strategic objectives of the Plan. The Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

30 Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

31 The Trustees appoint its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

32 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

33 The Trustees review the costs incurred in managing the Plan's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate

Additional Voluntary Contributions (AVC)

34 The Plan's AVC arrangements provide for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustees are aware of the need to provide a range of investment options broadly satisfying the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments.

35 The Plan has two AVC providers – Utmost (formerly Equitable Life) and Prudential.

36 From time to time, the Trustees (via their DC sub-committee) will review the AVC arrangements with the assistance of the Investment Consultant, and in consultation with Trane Corporate Treasury, to ensure that the investment performance achieved is acceptable and the investment profile of the available funds remains consistent with the objectives of the Trustees and the needs of the members. A limited review was carried out in March 2020, following the transfer of assets from Equitable Life to Utmost Life & Pensions. No changes were made following the 2020 review, but the DC sub-Committee has agreed to undertake a further review in 2021.

DC Underpin

37 Some members of the Plan have a DC 'underpin' applied to their DB benefits at the point at which they "crystallise" (begin drawing benefits). When a member of the Plan takes their retirement benefits, transfers out or dies, their benefits are tested to check if the underpin applies. This is referred to as a Personal Pension Accounts ("PPA") in the Plan Rules. If the value of the PPA is greater than the value of the DB benefits, the DC underpin 'bites' and the Trustees must ensure that the value of the benefits paid out to the member is in line with the PPA. This rule applies very rarely to the Plan, and has no specific investment objectives linked to it, however in the instance where the underpin does 'bite' then it is equivalent to a DC benefit, and the Trustee will produce a Chair's Statement that addresses the underpin (if triggered).

Signed:

Name: CHRISTOPHER DONOHOE Date: 23 SEPT 2020

Authorised for and on behalf of the Trustees of the Plan

Appendix A – Risk Measurement and Management

The Trustees recognise a number of risks involved in the investment of the Plan's assets:

Deficit risk

- Is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.
- Is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy and agreeing an appropriate level of Employer contributions that cover ongoing accruals and amortizes prior deficits.

Interest rate and inflation risk

- Is measured by comparing the sensitivity of the Plan's liabilities and assets to movements in inflation and interest rates.
- Is mitigated by holding a portfolio of matching assets that enable the Plan's assets to better match movements in the value of the liabilities due to inflation and interest rates.

Manager risk

- Is measured by the expected deviation of the return relative to the benchmark set.
- Is managed by limiting exposure to any one investment manager, consideration of the appropriate amount of the Plan to allocate to each portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.

Liquidity risk

- Is measured by the level of cashflow required by the Plan over a specified period.
- Is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

Currency risk

- Is measured by the level of exposure to non-Sterling denominated assets.
- Is managed by monitoring the actual level of assets held in non-Sterling denominated currencies and determining the appropriate level of hedging for currency exposures.

Political risk

- Is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- Is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.

Sponsor risk

- Is measured by receiving regular financial updates from the Employer and periodic independent covenant assessments.
- Is managed through an agreed contribution and funding schedule.

ESG risk

- Is measured by the adverse performance due to Environmental, Social and Governance (ESG) related factors including climate change
- Is managed through an initial ESG assessment at the point of investment with the investment managers and the ongoing investment manager monitoring process.

Appendix B – Statement of Funding Principles

The Trustees considered the future returns expected on the Plan's assets when setting the discount rate assumptions used for the Plan's 5 April 2019 formal funding valuation, as documented in their Statement of Funding Principles (SFP) dated June 2020.

The Trustees recognise that the discount rates used for funding purposes take a prudent view of the likely investment returns achieved by the Plan's assets and, therefore, the actual long term returns from their asset portfolio are expected to be higher than the assumptions used for funding.

The SFP states that *"the discount rate will be set taking account of the full (term-dependent) UK Government gilt yield curve, with an explicit margin added to reflect a prudent estimate of the expected investment return on the portfolio of assets which the Trustees hold at the date of the valuation and expect to hold in future."*

The Appendix to the SFP states that, as at 5 April 2019:

"The discount rate approach selected for this valuation was based upon the term-structure of returns available on UK Government Gilts. The gilt yield spot curve was taken to represent the return available, at the valuation date, on a low-risk investment portfolio.

An addition was made to this yield curve to reflect the additional returns expected on the Plan's assets:

- *A margin of 0.55% pa over gilts was selected as a suitably prudent estimate of the long-term outperformance expected from the investment strategy held at the valuation date;*
- *A prudent margin of 0.4% pa over gilts was selected to represent the returns anticipated in the long term; and*
- *The discount rate was then calculated based on the assumption that the outperformance margin would linearly reduce from 0.55% pa at the valuation date to reach 0.4% pa from 2025.*

This approach was determined by the Trustees based on market conditions as at the valuation date, with regard to the Plan's investment strategy at the valuation date, and how the Trustees plan to reduce their holding in return-seeking assets from 20% to 10%.

The Trustees expect to keep these margins under review at future valuations to reflect any change in the Plan's investment strategy, or in the outlook for investment returns on the portfolios of assets."